



been implemented by the development of rental apartments for low income people by the Municipality of Jakarta and Perumnas. Recently, the offices of the Ministry of Public Housing together with the Japan International Cooperation Agency (JICA) are studying the feasibility of developing apartments for low income people. With this study, we are going to develop the right type of such

apartments, together with engineering its financial sources, investments and target rental prices to be paid by the people.

IPR: What is your comment of the big reclamation plan for north Jakarta beach, to be launched by the government of Jakarta?

Minister: With land becoming more rare and expensive, the reclamation plan seems sound. However, low-income housing should be a part of any well-conceived Master Plan.

A Mass Rapid Transit System

The right tool against traffic congestion

Current indications of a rapid change in demographics, rapid growth in industrial development, and accelerating population growth leads one to the conclusion that the City of Jakarta will have to come up with a solution for its growing problem of mass transportation. Mass Rapid Transit is an essential part of the solution.

Any commuter in the Jakarta area can tell you that they are spending more and more time in hot, polluted, temper raising traffic jams. With a large growth rate, the City of Jakarta, now with a population of over 9 million inhabitants, is facing an era of great changes in its economy, social and cultural make up, and way of life. This growth requires rapid growth in the infrastructural system, particularly the transportation system.

Modern, up-to-date means of mass transportation should be provided for Jakarta's inhabitants, the majority of whom cannot afford a car (which may be a blessing in disguise for traffic control reasons). The introduction of a MRT (Mass Rapid Transit) system is an essential and best choice to solve the congested and nearly overloaded transportation system.

Most Jakartans are people of low income. Public transportation is the only means of transportation that they can afford to commute to and from their increasingly distant jobs. Every day they can see that the condition of the mass transportation system has worsened.

The supply of public transportation facilities is considered to be far below public demand. According to Djoko Rasmiadji MSc, Vice Chairman of PT Bhaskara Dunia Jaya, which deals in providing mass transportation facilities, the handling capacities of most Jakarta's roads are unable to keep up with demand. Based on 1990 data, the number of trips made on the roads of Jakarta between 6 am and 8 pm each day was 9.7 million. Of course, this number has increased dramatically

since then. Further data given by H. Syarifudin Akil, Director of City and Rural Area Development of the Municipality of Jakarta, revealed that, within the boundaries of Jakarta, travel rates were increasing by 3.6% yearly. The number of inhabitants in the Jakarta-Bogor-Tangerang-Bekasi area, 17.1 million in 1990, is predicted to rise to a staggering 23.3 million by the year 2000.

The Municipality of Jakarta decided to prioritize finding a way to handle the coming stampede to the city. They came to the conclusion that a MRT system was necessary to prevent a coming traffic nightmare. Backed with more than enough data and analog experiences, these people understood that quick action had to be taken. They stated that any delayed response to this strategic city development program may well endanger the development of Jakarta in the future.

A statement of the recent 1993 Guidance of State Policy stipulated: 'The development of transportation, which acts as the main blood vessels of the nation's economy, social and cultural life, politics and National Defense should be directed to the establishment of a National Transportation System which is reliable, highly capable and executed as an integrated, orderly, safe and efficient means to support and deliver the dynamics of development, human mobility, goods and services'.

Recent national demographic data revealed that the annual population growth at major Indonesia's cities is 5.2%. In the next 25 years, based on demographic data, big city inhabitants

may well account for 34% of the total national population, an enormous 143 million people. With a recent annual rate of development in the industrial sector of approx. 9%, predictions of a 6% annual rate of growth in mass transportation demand can be ex-

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pected.

This gives a green light to any investor who wishes to make a good profit in the transportation and infrastructure sectors. One can see that the growth of usage of toll roads has significantly risen - 15% each year. With good supporting factors such as growing housing settlement estates near toll roads, the developments of new industrial estates, and strong support from the government to provide secondary investment instruments make transportation infrastructure, particularly toll roads, a good investment.

During the recent sixth Five Year Development Program, the market demand for investments in the infrastructural and transportation

sectors reached US\$ 14.5 billion, of which 44.1% will be available to the private sector. These prospects are big opportunities for investors, either through joint ventures, contract management or joint operational management of BOT (built-operate-transfer) systems or BOO (built-operate-own) systems. (see Table 1. *Growth of Infrastructural and Transportation Demands within Indonesia's cities boundaries*)

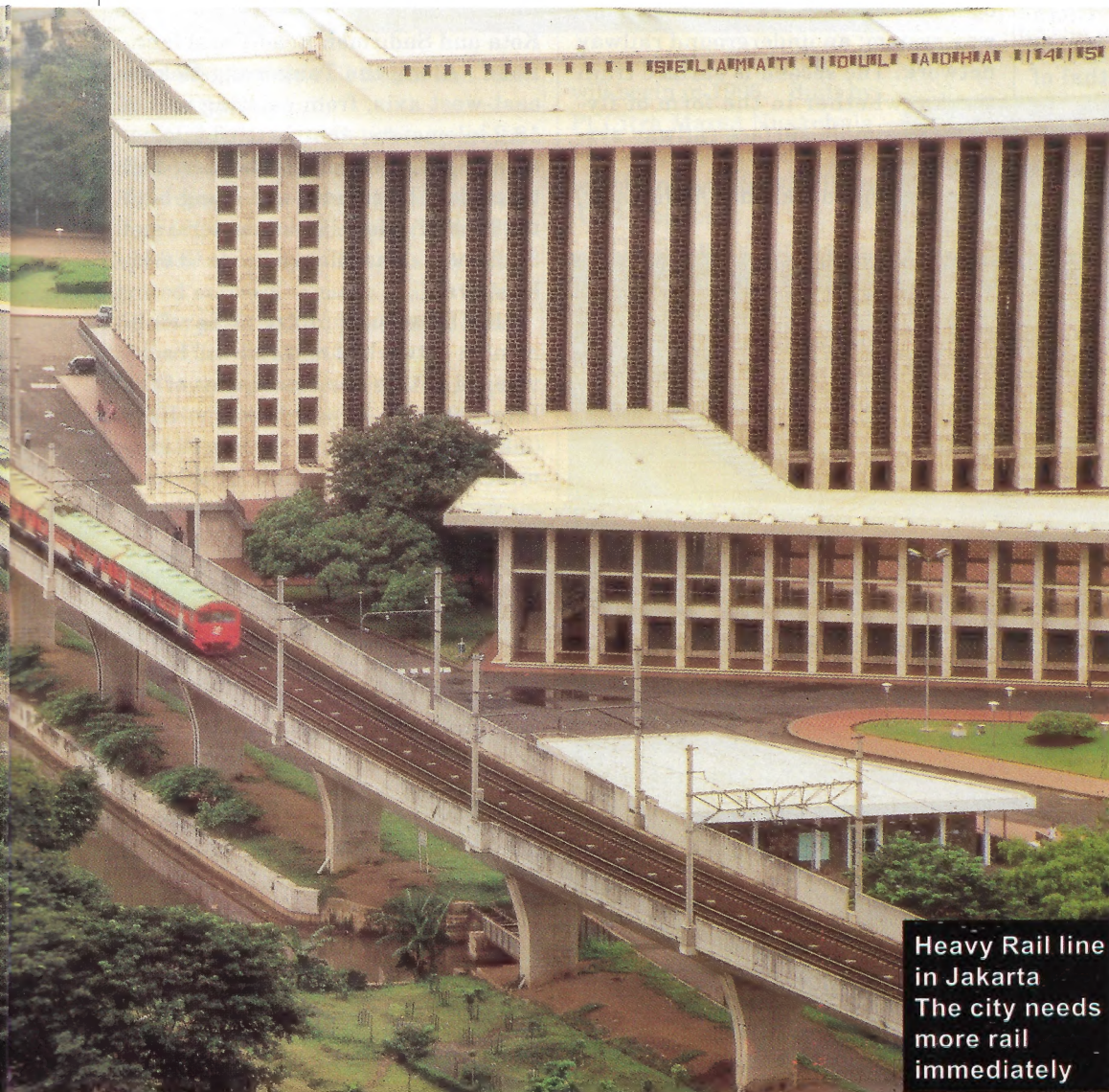
The above realities are indicators that the presence of a MRT would be in synergy within the development of Jakarta itself. This kind of a management structure from the government in order to efficiently plan, finance and control big transportation projects. According to DR Ing. Indriati Subagio,

Deputy Director of the Systems Analysis Department of the Agency for Technological Assessments and Applications, the MRT would have to find a way to transport more than 10,000 people in one direction every hour. This requires special vehicles running on special tracks, either in the form of railways or highways. Besides the necessary huge capacity needed to provide space for its passengers, these vehicles should be able to transport passengers quickly, with a speed of approximately 30-40 kilometers per hour inside the city's boundaries.

Even though development is a little late since the concept of a MRT was introduced four years ago, consistent political will and support promises a bright future. The MRT project will be

managed jointly between the Agency for Technology Assessments and Applications, the Department of Transportation and Communications, The Municipality of Jakarta, and the National Planning Boards. These agencies are under the coordination of Mochtaruddin Siregar, the Secretary General of the Department of Transportation and Communications.

Applications to invest in this MRT Project have been submitted by some well known companies. Citra Lamtorogung has proposed to develop a triple-deck integrated network of highway-rail-toll road connecting Lebak Bulus (South Jakarta) to Blok M Kebayoran (South Jakarta) to Kota (Downtown Jakarta). Another triple deck track connecting the areas of Cempaka Putih (East Jakarta) and Tanah Abang (Central Jakarta) has been proposed by the same company. Itochu Co. of Japan has proposed to develop a subway system connecting Blok M Kebayoran to Harmoni (Central Jakarta) and a fly-over road connecting Harmoni to



Heavy Rail line in Jakarta
The city needs more rail immediately

Growth of Infrastructural and Transportation Demands within Indonesia's cities' boundaries

Growth	Increase per year
1. Cities	5.2 %
2. Expected growth for the next 25 years	34.0 %
3. Assumption of total cities population	134 million
4. Industrial growth	9.0 %
5. Demand for infrastructural services	6.0 %
6. Number of people transported	6.11 %
7. Number of goods transported	7.79 %
8. Demand for toll roads	15.0 %
9. Total infrastructural investments US\$	14.5 billion
10. Private sector investments	44.1 %

Kota. A unique transportation system using light rail has been widely used in Brazil (its prototype-type successfully operates in the Taman Mini recreational park south of Jakarta) and has been proposed by PT Citra Patenindo. Dominion Bridge Inc. of Canada, and Siemens's Ferosthal of Germany also submitted proposals. In the final draw, the winners of these projects are PT Citra Marga Nusaphala Persada and PT Citra

Lamtorgung. CMP will develop the Blok M - Kota subway system and the electric rail system connecting Cilandak to Kota, while CL will be responsible for the development of the 21.45 kilometer light rail train system connecting Cinere and Kebayoran Lama (West Jakarta) and the 4 kilometer Integrated MRT Network connecting Blok M to Cipete.

This network of 25.45 kilometers is only a small fraction of the total target 144.8

kilometer MRT network development plan. The lion's share is wide open to other investors.

According to the original plan, there are two types of MRT development systems. The first is the subway system; an underground railway network. The second is surface train tracks, whether in the form of flyovers or simple surface railway systems.

According to Iskandar Abdulkadir,

Head of the Sub-Department of City Transportation, Directorate General of Land Transportation, Department of Transportation and Communications; the targeted time of development for the second MRT System is 2015. Its operation management will be given to the private sector. From a total investment of Rp 6.866 trillion (US\$ 3.433 billion), Rp 3.544 trillion (51.61%) will be used for the development of infrastructurals and the rest - Rp 3.222 trillion (48.39%) will be allocated as a rolling funds stock. The infrastructural works will consist of developing new tracts and facilities together with renovating old systems.

In its initial phase of development, the second type MRT system will consist of railways connecting the areas of Tangerang (West of Jakarta) and Bekasi (East of Jakarta), Blok M - Kota and Sudirman Road-Casablanca Road. Along the Tangerang-Bekasi east-west axis, from existing rail of 18.2 kilometers, another 18.3 kilometers will be added. Brand new rail tracts will be constructed along both the Blok M - Kota (15 kilometers) and Sudirman - Casablanca areas (3.6 kilometers).

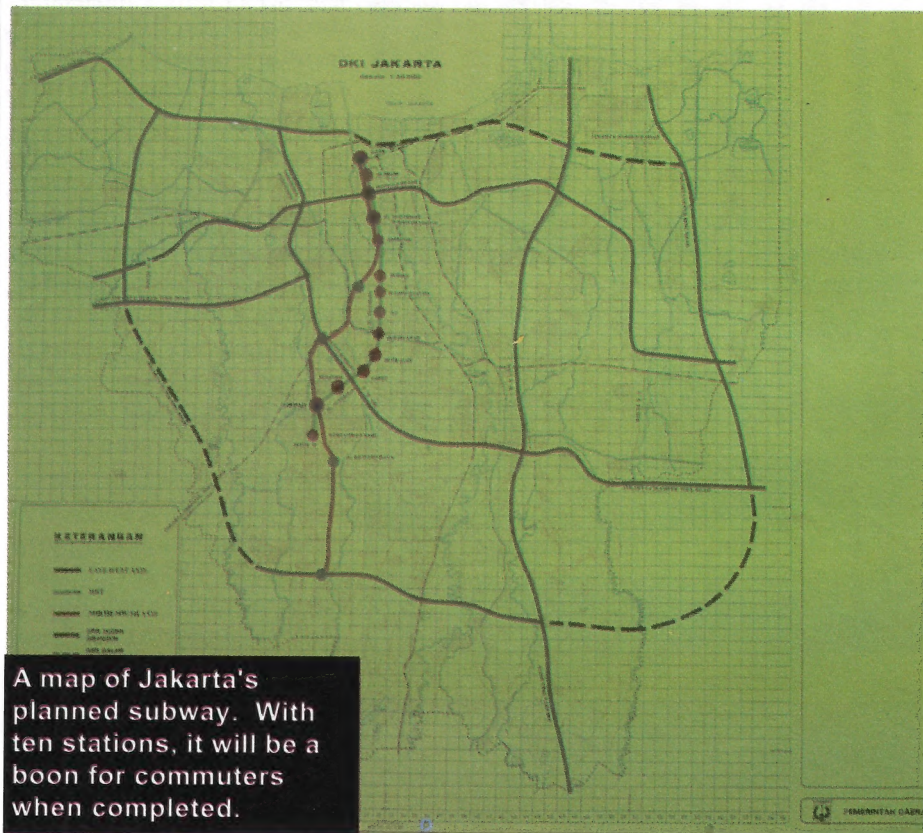
In the second phase of development, a network of new rail will be developed within the boundaries of the International Airport Sukarno-Hata (5 kilometers), Kelapa Gading (6 kilometers), Blok M - Cipete (4 kilometers) and Blok M-Ciledug (12 kilometers).

In its third phase of development, investors will develop rail connecting the West Jakarta - Tangerang areas (27.7 kilometers) and the Serpong - Pondok Ranji areas (10.5 kilometers)

Three new rail lines: Casablanca - Pasar Minggu (7.3 kilometers), Casablanca - Sudirman (2 kilometers), and the West Bekasi railway (6.7 kilometers) will be constructed during the fourth phase. Meanwhile, there is also a planned renovation of old rail lines at Serpong - Pondok Ranji (8.5 kilometers).

By the year 2015, there will be a total of 144.8 kilometers of rail tracts developed, of which 64.9 kilometers are

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**A bus stop.
The usual
means of
commuting for
Jakartans.**

renovations of old rail tracks and 79.9 kilometers new rail.

Each phase will take approximately a five year developing time. According to the Governor of Jakarta, Suryadi, the development of this MRT system should be done as an integrated network to make it able to fulfill the practical and aesthetic needs of the City of Jakarta.

The big development of the integrated three way system of rail and road between Cilandak - Kota, and

the Blok M - Kota subway will begin in 1996. Built by Pt Citra Marga Nusaphala Persada, this project is projected to cost Rp 4 trillion (US\$ 2 billion).

The financing for the development of this MRT system has so far been no problem. A number of banks, financial institutions and other non-banks institutions have shown interest in providing the financing needed for the development.

For PT Citra Lamtorogung, the US\$ 800 million working capital needed for their project is not a problem. According to Winato Sumarto, the Chairman of Bank BNI, funding infrastructural projects always gives good profits. This is due to the capability of infrastructural projects to generate a constant source of money for a very long time.

The subway system for the MRT network was chosen to overcome the problem of land acquisition, which recently has become a big

problem in the central Jakarta area. Besides, the transportation capacity of subway systems is large, with a more efficient travel cost for each kilometer when complete. According to Ir. Ridwan Mahmud, expert staff of the Environmental Department Ministry of Mines, the tunneled - subway system is a must for big cities in world. The problems are finding highly skilled human resources for implementation, and accumulating the vast money needed for subway development. The cost to develop 1 kilometer of subway is equal to 2 kilometers of fly-over railways or 7 kilometers of surface railways.

The financing needed for the development of the MRT subway system for the Blok M - Kota area (14 kilometers), which, hopefully, will be finished by the year 2000, is also no problem.

**Table 3.
The development of Blok M - Kota subway**

1. Total investment	: Rp 2.6 trillion (US\$ 1.3 billion)
2. Route length	: 14 km
3. Exp. date of completion	: 2000
4. Stations to be developed	: 15
5. Distance between stations	: 1 km
6. Locations of stations	: Panglima Polim, Blok M, Senopati, Senayan, Karet, Setiabudi, Dukuh Atas, Hotel Indonesia, Wahid Hasyim, Monas, Harmoni, Sawah Besar, Glodok, Kota.
7. Ticket price (one way)	: Rp 1,800
8. Company/Developer	: PT Citra Marga Nusaphala Persada

Development of Cinere - Kebayoran Lama railway and Blok M - Cipete MRT networks ---Cinere - Kebayoran Lama railway---

1. Total investment : US\$ 800 million
2. Route : From Cinere (Sawangan, Bogor) through Lebak Bulus and Pondok Indah enters Jalan Sutan Iskandar Muda (Kebayoran Baru) to Kebayoran Lama. From Kebayoran Lama the trains will follow the existing rail tracks of the Serpong - Bintaro - Pal Merah - Tanah Abang routes

---Blok M - Cipete MRT network---

1. Type of network : Three layers main tracks: the bottom layer for an ordinary road, second layer for rail, and the third layer for a toll road.
2. Expected completion date : 2015
3. company / developer : PT Citra Lamtorogung

Financial help is coming from the World Bank, BPPT - GTZ of Germany and JICA of Japan.

While the plans for extensive MRT systems are quickly shaping up, the long planning and construction times inherent in these type projects means the implementation of a high-tech product such as the MTR system will not come quickly to traffic jam suffering Jakartans. A lot of supporting factors still need to be considered before the bulk of citizens of Jakarta will enjoy a cheap but comfortable means of transportation.

A Steady Flow of Money On Toll Roads

Toll road construction has become a new, attractive business. More than 300 companies are ready to invest their money in the construction of toll roads. It requires massive capital, but it also guarantees high profit.

The construction of toll roads requires big capital. The government has very limited funds to invest in toll road construction. PT Jasa Marga is a public company under the Department of Public Works that became a single license owner in the management of toll roads. At the end of March and in

early April 1995, PT Jasa Marga opened bidding for public companies (BUMN) and private companies to invest their monies in toll road construction. As the result of this action, more than 70% of toll road construction in Indonesia will be undertaken by the private sector, while the rest of will be undertaken by government.

In March 1995, PT Jasa Marga signed a Memorandum of Understanding (MOU) with 11 public and private companies for the construction of 8 internodes of toll roads on the island of Java at a total investment of Rp 1.93 trillion. Chief Director of PT Jasa Marga, Maryadi Darmokumoro, said to journalists that total length of the 8 internodes of toll roads is about 193 km. This means that these toll roads cost Rp 10 billion per km. This project is part of a target to complete about 310 km of toll roads during the Sixth Five-Year Development Plan (Pelita VI) of the government of Indonesia.

PT Istaka Karya, PT Adhi Karya, PT Hutama Karya, PT Wika and PT WK are public companies (BUMN) under the department of Public Works.

As the result of the government's recent decision to increase the local price guide (HPS) for cement by 30%, the total investment for toll construction will also escalate, because cement is the main component for toll road construction.

On 4 April 1995, PT Jasa Marga also opened bidding to 366 companies for construction of 9 toll road internodes with a total length of 770 km and a total investment of about Rp 6.079 trillion. According to the Chief Director of PT Jasa Marga, Maryadi Darmo-kumoro, the 9 toll road internodes which were offered to public and private companies.

Eight of those 9 toll road internodes are part of trans-Java-Bali development planning. When all the toll road internodes on the Island of Java



Construction at the Pondok Indah-Cikunir toll road site. Big cost, big profit.

have been constructed and connected to one another, the west end of Java in Merak to the east end of Java in Ketapang, Banyuwangi, will be connected by toll roads. This is somewhat similar with the road construction project ordered by the Dutch Governor General Daendles early this century. That was the road from Anyer in West Java to Panarukan in East Java. The present toll road construction, however, is, of course, far more costly, and will use high technology.

Apart from that, PT Jasa Marga also offered other toll road construction, i.e.: Medan-Serdang (10 km), Denpasar-Badangbai (26 km), Gilimanuk-Sirikit-Denpasar (100

km), Bali Strait Toll Bridge (3 km), the end of North-South Surabaya (25 km), the Medan Ring Road (15 km), Ujung Pandang-Mandai (14 km), and Palembang Ring Road (30 km). The total length of toll roads which will be constructed are 1,202 km., needing an investment of at least Rp. 12.02 trillion.

The Role of PT Jasa Marga

PT Jasa Marga is single license owner for the construction and management of toll roads in Indonesia. With this license, all toll road projects must have this public company as a member of the consortium (joint venture) or joint operation, with a concession system of build, operate, and transfer (BOT).

As far as land clearance is concerned, the government is fully responsible for it and for paying compensation to land owners.

In order to finance the project, the government will implement a bridging finance pattern, because the government has very limited funds. With this system, toll road investors are able to use their own capital in advance for land clearance, which the government will pay back after the toll road operates or through the extension of concessions for that private company. If the cost for compensation is higher than previous estimates, PT Jasa Marga will be responsible for the excess compensation. According to Maryadi, 'the investor must not be in doubt. The MOU with PT Jasa Marga is fixed; it will not change even though the cost of compensation is higher'.

Proposals from investors will be considered by the government, which

The eight toll road internodes being constructed jointly by PT Jasa Marga and other public and private companies

- The Cirebon-Palimanan toll road (28.3 km) by PT Istaka Karya with a concession time for building, operating, and transferring (BOT) of 15 years.
- The Surabaya-Mojokerto toll road (38.5 km) by PT Marga Nujya Sumo Agung with a concession of 29 years.
- Jakarta's outer ring road sections E2+E3+N (Cikunir-Cilincing-Tanjung Priok) (19.2 km), BOT time period 33 years, by PT Citra Lamtorogung Persada, PT Tridan Satria Putra Indonesia, PT Bhaskara Dunia Jaya, and Tiara Indah Foundation.
- The Semarang-Batang toll road (70 km), BOT time period 28 years, by PT Intsia Pasifik Permai.
- Widening of the TMI-Cibubur toll road internode, BOT time period 5 years, by PT Utama Karya.
- The Semarang toll road section C (9.75 km), BOT time period 15 years, by PT Adhi Karya.
- The Cileunyi-Nagreg toll road (22 km), BOT 15 years, by PT Wijaya Karya (Wika).
- Access toll road Citatah (6 km), BOT 15 years, by PT Waskita Karya (WK).

Nine Toll Roads opened for bidding

- ❑ Sadang-Palimanan in West Java (114 km) with total investment, including construction and land clearance/compensation, of Rp. 899.5 billion. The construction will start in 1999 and be completed in 2002.
- ❑ Ciawi-Sukabumi-Citatah, West Java, total length 114.5 km, total investment Rp 1.053 trillion. The construction will start in 1998 and begin operation in 2004.
- ❑ Kanci (Cirebon)-Batang, West Java and Central Java, total length 135 km, total investment Rp 873.8 billion. Construction will start in 1999 and be completed in 2002.
- ❑ Semarang-Solo, Central Java, total length 80 km, investment Rp. 712.5 billion, construction to begin in 2000 and be completed in 2003.
- ❑ Solo-Mojokerto (209 km), total investment Rp 1.419 trillion, construction in 2000, operation in 2001.
- ❑ Surabaya east outer ring road (Waru-Tanjung Perak), 24 km, investment Rp. 475 billion, construction 1998, operation in 2001.
- ❑ Pandaan-Malang, East Java, 29.5 km, investment Rp 217.5 billion, construction 1997 and operation in 2000.
- ❑ Pasuruan-Probolinggo, East Java, 40 km, investment Rp 253.5 billion, construction starts in 1999 and operation begins in 2002.
- ❑ Medan-Binjai, North Sumatera, 24 km, investment Rp 175 billion, construction 1999 operation in 2002.

then will award the project. Investors who win tender are those who have financial access, experience in toll management, and have the technology to construct toll roads. Based on these criteria, it is highly likely that only a few investors will win that tender; such as PT Citra Marga Nusapala Persada, PT Utama Karya, PT Wijaya Karya and other public and private companies who are experienced in toll construction and management.

Nevertheless, there are other big private companies who have tried get into these projects, although they are outside their core business. Among the newcomers are: PT Bukaka Teknik Utama, PT H.M. Sampoerna, PT Astra International, PT Marga Mandala Sakti, PT Marga Bumi Matraraya, PT Insia Permai, PT Griya Adi Sejati, and PT Propelat.

Apart from those big private companies, there are at least 30 large national banks which are expected to support toll construction financially, such as Bank Dagang Negara (BDN), Bank Nasional Indonesia (Bank BNI), Bank Central Asia (BCA), Bank Niaga, Bank Bukopin, Bank Bira,



Toll Gate at Prof. Sedyatmo Toll Road. As time goes on, the cash flow increases.

Bank Duta, Bank Export import (Exim Bank), Bank Danamon, Bank Dharmala, and Bank DKI. Moreover, there are also foreign banks that are interested in financing toll road projects, such as, Deutch Bank (Germany), Bank of Tokyo (Japan), Bank of America (United States), Bank of MacQuarie (Australia), and Korean Bank (South Korea). Investors are also able to receive big funds from the stock market, or by selling their letters of obligation.

Big Profits

Investing in toll road construction is long-term with a non-recourse guarantee, so it needs massive financial support. The investor who constructs a toll road has also to be clever. He has to research which part of the toll road will be initially profitable or used by the most vehicles. They have to construct the profitable internodes first and then follow with the rest of the road. This is done to get cash flow, which will be used for the construction of the rest of the internode. Otherwise, the investor may financially collapse, because he has no cash flow for construction and to pay off due debt

and interest.

If the toll road is in operation, the investor will earn cash money in rupiahs. During this period, it is typical to have a deficit cash flow. As time goes on, however, cash flow positively increases. In other words, profit begins as a trickle, and increases until it becomes a powerful current of cash flow. Therefore, it is understandable that hundreds of bids for toll road construction went to the desk of the Chief Director of Jasa Marga.

So, how big is the profit which will be collected by the investor from toll road construction and operation? Here is the success story of the pioneer of toll road construction; PT Citra Marga Nusapala Persada (CMNP), which constructed the Tanjung Priuk-Cawang toll road. In 1990, the first year of toll road operation, it lost about Rp 22 billion. In the second year, however, the company (which is owned by the first daughter of President Soeharto, Siti Hardiyanti Rukmana), made a profit of about Rp 8.7 billion. Its profit shot up drastically to Rp 31 billion in 1993, and in 1994 the profit jumped again to Rp 56 billion. The company will prosper even more greatly because the government extended its concession of BOT from 22

years to 30 years, effective January 1, 1994. This extension will be incredibly profitable for CMNP. Moreover, capital return for toll road construction is about 10-20 years.

Another financial concession which has been given to the investor is the increase in the tariff for toll road usage almost every two years. The reasons given for increased tariffs are because the investor has poured massive capital in toll road construction, the cost of maintenance has jumped, and the toll tariff in Indonesia is still lower than in other countries. In reality, however, the average income of Indonesians is still far lower than other countries, particularly ASEAN countries, and the investor has collected a lot of money from the toll road. It is questionable why the government has always satisfied the investor's demand for the "adjustment" of toll tariffs. In other countries, such as Australia, if the cost of construction has been paid off, the toll road becomes a "freeway". Perhaps it would be fair for investors and users of toll roads that the tariff be lowered every two years after the ten-year period.

Thermal Power Station Bids

Almost all thermal electric power station development projects are offered to the private sector. Is there any hope for local manufacturers to win a portion of these offers from the foreign giants?

As soon as PLN, the State-owned Electricity Enterprise, changed from its former form as a company over-protected by the government, to a healthy, vigorous, challenger in the business world, it began to offer giant scale projects to the open market. As stated in the Long-term Development Program of PLN, almost 80% of its thermal resources are open to bid for development as electrical generators and power stations.

Some of these Mega-projects were opened to bid a few years ago and are currently being developed. They are the 2 x 660 Megawatt PLTU Tanjung Jati B in Central Java, the 2 x 100 Megawatt PLTU Tarahan at Lampung (South Sumatra) and the famous 2 x 615 Megawatt PLTU Paiton (East Java). Tanjung Jati B is expected to be in operation by 1997, while the Tarahan and the Paiton projects will begin to go on line by the year 1998 and 1999 respectively.

Formerly offered projects, were won by foreign companies. Tanjung Jati B, for example, was won by Hopewell Holdings Ltd. British Gas Plc. won a thermal power station project at Serpong, Enron Development Inc. won a project in East Java and Energy Electric won a project in Samarinda (East Kalimantan). Some

domestic companies won several smaller projects, like PT Triharsa Sarana (gas and thermal power station project at Sengkang, East Sulawesi), Himpunan Pengusaha Purnawira Bhakti (a 55 MW thermal and gas power station at Dieng, East Java), PT Enerindo Supra Abadi (a 6 x 20 MW thermal power station at Ulubelu, Lampung).

With the escalating price of crude oil, geo-thermal resources which can deliver electrical energy have become a kind of Prima Donna recently. The main drawback of this type power station is the relatively expensive invest-

Kerinci field, Jambi field, Lahendong field), some have been tapped (like the Kamojang and Dieng fields). Both fields are currently generating 148 MW of electrical energy.

Since the implementation of the energy diversification regulation, the Indonesian government has made efforts to replace the role of crude oil as the prime energy maker with coal, gas, and geo-thermal sources. From 1994 - 1996, due to rising domestic demand, the development of coal power stations and geo-thermal power stations are expected to increase. During 1996-1997, coal power stations of 600 MW

DEVELOPMENT TARGETS FOR ELECTRICITY IN REPELITA VI

DEVELOPMENT OF PHYSICAL PLANT FACILITIES	END OF REPELITA V	DEVELOPMENT TARGET REPELITA VI	END OF REPELITA VI
Generators (MW)	13,569	13,357*	26,926
Transmitters (kms)	18,997	10,548	29,545
Main Storage (MVA)	26,989	30,406	57,395
Middle Volt Distribution (kms)	110,510	133,317	243,827
Low Volt Distribution (Kms)	154,713	196,741	351,454
Distribution Storage (MVA)	14,847	21,824	36,671
TARGET UTILITY DEVELOPMENT			
Amortization (%)	12.5	12.1	12.1
Households (,000)	15,157	10,769	25,9
Sales (GWh)	38,962	49,324	88,286
Rural Electricity (No. of Villages)	31,689	18,619	50,308

*Note : * Including electricity from private company of 3,835 MW*

ment costs compared to electric generator stations powered by water, oil or coal.

Within the vast area of Indonesia, 207 geo-thermal fields have been found, each with a minimal capacity to produce 10.650 MW of electrical energy. Some of these geo-thermal fields are open, spouting as much as 20 tons of hot steam every hour into the open air. Some are left unattended (the

each are going to be developed on Java Island.

The great energy demands expected at the end of the sixth Five Year Development Program will further increase the demand for power plants. These plants will have to provide another 12.500 MW of electrical energy. The development of the necessary power plants can not be provided by PLN alone; help from the private

INVESTMENT PROGRAM & SOURCE OF FUNDS REPELITA VI

Year	Grant		Government		Foreign		Total	
	Billion Rp	(%)	Billion Rp	(%)	Billion Rp	(%)	Billion Rp	(%)
1994/95	6,160	53.64	2,635	22.95	2,688	23.41	11,483	100.0
1995/96	5,777	56.31	1,539	15.00	2,944	28.69	10,260	100.0
1996/97	5,018	50.52	1,490	15.00	3,425	34.48	9,933	100.0
1997/98	4,292	44.72	1,440	15.00	3,866	40.28	9,598	100.0
1998/99	4,062	42.69	1,427	15.00	4,026	42.31	9,515	100.0
Total	25,309	100.00	8,531	100.00	16,949	100.00	50,789	

sector is required. By 2003 - 2004, the total nation's demand for electricity may well reach 164.778 Giga Watts, with a peak load demand of as much as 27.284 GW. Almost 73% of this enormous energy demand will be supplied by geo-thermal power stations. A great number of power stations must be developed. During 1995-2005, PLN has already set a target of developing 10 PLTUs, 7 PLTPs and 4 PLTGUs (PLTUs, PLTGUs and PLTPs are types and sub-types of thermal and geo-thermal power stations).

The increasing energy demand can be seen from a comparison of the target development of power stations during the fifth and sixth Five Year Development Programs. In the fifth Five Year Program, the target was 13.569 MW, and in the sixth Five Year

Program the target increased to 26.926 MW. The length of the electrical transmission network, as stated in the fifth Five Year Development Program was 18.997 kilometers, and in the sixth Five Year program 29.545 kilometers. Mid-voltage distribution networks have gone from 110.510 kilometers to 243.827 kilometers in length. Low voltage distribution networks increased from 154.713 kilometers to 351.454 kilometers.

This great demand for energy is followed by higher targets for marketing the energy by PLN in the sixth Five Year Development Program. The sales target during the 1994 -1995 period is 48.542 million kilowatt hours. From this amount 15.205 million kWh (31.3%) is for home use, 7.344 million kWh (15.1%) for commercial and pub-



**Power Station, PLN
utilizes the rich geo-
thermal resources of
Indonesia**



lic use, and 25.994 million kWh (53.5%) for industrial and hotel use. In 1998 -1999, the sales target is expected to increase to 79.612 kWh of which 23.765 kWh (29.9%) is for household use, 12.194 million kWh (15.3%) for commercial use and 43.652 million kWh (54.8%) for industrial and hotel use.

To meet the great electrical energy demands of 12.500 MW in the sixth Five Year Development Program will require an enormous capital investment of US\$ 11.08 billion, excluding the cost of developing substations of total 30.977 MVA and 10.658 kilometers of transmission lines. The estimated cost for the development of both



Electric Transmission line development during the Repelita VI program was 18,997 kilometers

substations and transmission lines is approximately US\$ 2.88 billion. For the distribution lines an added cost of US\$ 6.97 billion is needed. The above mentioned figures clearly the great opportunities in the energy sector, with almost US\$ 20.94 billion in projects offered to the market.

A crash program to develop a 600 MW power station on Batam island has recently offered to bidders. PLN has already developed several small scale power stations in Batam, with capacities of 5 x 4.5 MW.

Recently PLN began developing a diesel power station of 2 x 12 MW in Baloi, Batam island, and another diesel power station of 5 x 4.5 MW, expected to be in operation in 1996.

In another area of Batam island, PLN plans to develop a bigger PLTGU of 2 x 140 MW at Tanjung Sengkuang, and a PLTG of 2 x 30 MW at Kabil. This Kabil PLTG is projected to be increased in capacity to 6 x 30 MW by the year 2003.

As a new, emerging business cen-

ter in Southeast Asia, Batam island needs a great quantity of electric energy. PT Batamindo Investment Corporation (BIC), which manages the Batamindo Industrial Park (BIP), will develop their own electric power station to ensure the continuing availability of electricity for their industrial estates. PT BIC has already increased their electrical capacity to 4 x 6.1 MW. With this additional capacity, electric capacity in the Batamindo Industrial Park has reached 76.4 MW. On Batam island, besides the electrical energy provided by PLN, another 120 MW in power station projects are offered to investors. This great opportunity, will not be taken advantage of by domestic investors. This is due to their limitations in technical knowledge, financial resources, design engineering and human resources. Most domestic companies act as subcontractors only.

In the process of developing thermal electric power stations, PLN will use both foreign and domestic experts. With the improvement of national experts' knowledge, PLN will be challenged with developing projects with financial resources provided by local government.

Recently, in executing some power plant projects, Indonesian human resources have shown improvement. Approximately 90% of the civil engineering for these projects can be performed by Indonesian experts. Lack of expertise are big drawbacks in mechanical and electrical engineering, however, has been the main cause of their inability to win any big orders from PLN against foreign experts.

ENERGY SALES PLAN IN REPELITA VI
(in million kWh)

CUSTOMER CATEGORY	1994/95		1995/96		1996/97		1997/98		1998/99	
		(%)		(%)		(%)		(%)		(%)
Household	15,205	31.3	17,062	30.5	19,109	30.2	21,328	29.9	23,765	29.9
Commercial & Public	7,344	15.1	8,380	15.0	9,478	15.0	10,693	15.0	12,194	15.3
Industry & Hotel	25,994	53.5	30,443	54.5	34,642	54.8	39,335	55.1	43,652	54.8
Total	48,542	100.0	55,885	100.0	63,229	100.0	71,357	100.0	79,612	100.0

NEW REGULATION

THROWING OUT SPECULATORS TO NET END-USERS

The Indonesian government instituted new property taxes effective January 1, 1995. Besides increasing public funds, it should have positive impact in reducing speculation in property. Will prices better reflect real market values?

It seems nearly impossible to stop speculation in the property business. Some developers say that speculation is an interesting way to boost property demand and activate the market. They say the market will be more active because of the abundant buying of property, and all property players could benefit by receiving short term profits.

For instance, from 1993 to 1994, developers supplied 4,550 units of apartments to the market. In a short time, the majority of these apartments had been booked, according to developers. Furthermore, in 1996 and 1997 there will be respectively 11,096 and 11,755 units added to the market, for a total supply of 33,900 units.

Unfortunately, often the buyers of apartments are not end-users, but investors whose buy for speculation. This brought about an increase in property loans from about US\$ 10 billion as of August 1993, to about US\$ 14 billion as of August 1994. These numbers scared the government. Double digit inflation became a real concern.

To minimize the risk of a property rush, there are government regulations related to property that have been instituted effective January

1, 1995. These are Act No.10/1994 concerning income tax, Act No.11/1994 concerning the Value Added Tax, the supporting regulations PP No.48/1994, No.50/1994, and the Ministry of Finance decrees No.635/KMK.04/1994, and No.644/KMK.04/1994.

In regulation PP No.48/1994, individuals or bodies that transfer the right of land and/or building of property with a value of over Rp 60 mil-

lion, will be charged Income Tax (PPh) at a 5% rate. Decree No.595/KMK.04/1994 charges a VAT of 10% on construction by an individuals or bodies that is not a part of their business.

The VAT is meant for those who construct their own permanent building for residential or commercial use with a total building size of at least 400 sqm. This tax is 10 % of the tax basis or Dasar Pengenaan Pajak (DPP).

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**High end Apartment:
Subject to a
Luxury tax**

The DPP is 40 % of the total building cost, excluding the land acquisition price. In short, the building owner will be charged a VAT of $10\% \times 40\% \times$ building cost. All the tax should be paid to the government in monthly installments.

The Government is also charging a sales tax on Luxurious Products (PPn-BM) for residential units that have a total size of 400 sqm. or more, or residential units that use electricity of 6,600 or more watts. Also, apartments, town-houses, and condominiums are subject to this tax. The sales tax for luxurious houses are calculated as $10\% \times$ sales price of house, or $10\% \times 50\% \times$ sales price of house and land.

According to Alwi Chandra, the tax manager of Ongko Group, all transactions of residential units, such as apartments, condominiums, or townhouses will be charged 10 %. So developers must pay 20 %, because of the VAT of 10 %, and the sales tax.

Also, units of apartments or condominiums are charged these taxes without regard to the size or cost of the unit.

These taxes are fair, in that whether a person buys a residential unit from a developer or builds it himself, he is charged the same tax.

There have not been problems instituting the PPh 5% and VAT 4%, said Alwi. But for PPn-BM 10 % there has been a problem. The problem is; how will the PPn-BM be charged to consumers - at the time of transfer of the product or at the time of the transfer of the certificate? How about consumers who have made the payment in 1994, yet haven't made the transfer yet.

"Based on regulation, they remain being charged," says Alwi. This has yet to be cleared up by government by providing more specifics in the regulation for apartments charged tax. If not, there will be difficulties faced by de-



Very Simple House.
Tax on this house is the government's responsibility,

velopers who sold their product last year but did not transfer it until 1995.

Many apartments will be completed in 1995 and 1996. If sales prices of their products include taxes, developers will be burdened. If consumers are charged this will decrease demand. That's the obvious dilemma.

In order to lighten the burden on developers and consumers, the Indonesia Real Estate Association sug-

gested to the Director General of Tax, Fuad Bawazir, that it would be better if PPn-BM only be charged for apartments that have more than three

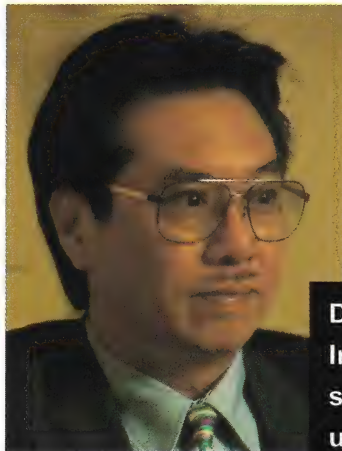
opers will become less competitive.

The situation may have a positive impact in reducing speculation in property sector. Developers definitely will be encouraged to supply their product to the end user, and the consumer will be more selective in buying properties.

Besides these property taxes meant to control the property rush, the government also issued Presidential decree Keppres No.8/1995. It mentions that the VAT for simple (low income) houses and very simple (very low income) houses are being charged to the government.

This decree changes Article 3, Keppres No.18/1986 to be : owed VAT on tranfering service from contractor to Perum Perumnas for building construction of simple houses and very simple houses, hostels, or student dormitories and other housing, with limitations determined by the finance minister after hearing the opinions of the State Public Housing Minister, will be taken by government.

By this tax instrument, the government encourages small developers to build simple and very simple houses. With the other taxes the government strives to make the market more stable and real - less artificially controlled by speculation ■



Deddy Kusuma.
Influencing the sales of Housing units

bedrooms or apartments with a total size of more than 180 sqm.

The problems, say Deddy Kusuma, director of Pondok Indah Group, is that it is certain that PPnBm will influence the sales of housing. The tax will directly burden consumers and the sales price will be expensive. And products from devel-

FOREIGNERS' LAND USE

New Regulation Under Discussion

Foreign entities have limited land use rights under Indonesia's basic agrarian land law. They may not own land outright. Tenure here is classified under several rights of land which includes: hereditary ownership rights held only by Indonesian citizens (Hak Milik), the right to use (Hak Pakai) and the right to build (Hak Guna Bangunan). Foreign entities can only have the right to build and right of usage. Joint venture type companies can have The Hak Guna Bangunan. It is granted for 30 years and is extendible for another 20 years. After this time period, possession of the land reverts back to the Government. The Hak Pakai is the only title available to foreign individuals residing in Indonesia. This land use right is good only for ten years, but is renewable.

The Government has been discussing a new regulation to allow foreign ownership of condominium or apartment units. As of now individual foreigners may not own land in Indonesia, but foreign investors who wish to have an apartment or condominium unit can do so through receiving the right of use (Hak Pakai), good for a maximum of 10 years, and renewable. Of course, this limited time of ownership discourages foreign investors, as the condos they may buy and wish to develop will always have a 10 year 'deadline' looming ahead of them. In addition, the investor may not use this condo or apartment unit as collateral for a bank loan.

The Minister of Public Housing has said that the government has the idea to extend the time of Land Use from 10 to 25 (or more years) for foreigners who purchase a condo unit above the 6th floor.

Another issue being looked at by the government and mentioned by the Minister of Public Housing is the ability to collateralize land held under a Land Use Right. Along with the ability to buy units of condos or apartments, the foreign investor would be able to use property of this type as a guarantee or collateral for loans, said the Minister.

Hopeful foreign buyers should be aware, however, that the recent dis-

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Condo Complex.
Someday, foreigners may be able to own one of these units.

cussion by the government to facilitate foreign condo ownership is still restricted by existing regulations. For example, the condo or apartment unit must be on land that has a proper

Land Use Right, and there will be 3 year waiting period before the buyer can re-sell or sub-let his unit. And all Immigration and Taxation guidelines must be met. Also, this regulation has

been discussed for some time at high levels of Government, without a 'breakthrough' or final decision made. Rumor has it that there is disagreement about this regulation at high levels of government, and therefore no forward movement on this issue has been possible yet. Some sources even say possible approval of this regulation should be seen as not occurring for years.

This regulation to allow vastly improved foreign use of condo units, a preliminary draft of which has already been written, could help raise demand in the now over-supplied and heavily speculated condominium and office space market. The Jakarta market in

apartments has recently slumped, with the occupancy rate dropping by 12.8% to 78.4% by the end of 1994. And thousands of new condo and apartment units are now under construction or planned. Yet the true conditions in the market are unknown, as speculators have bought large numbers of condo units. The eventual passage of this new regulation, however, may help this saturated market, as there are more than 16,000 expatriates living in Jakarta alone. Also, the practice by foreigners who want a house or apartment of under-the-table purchasing through foreign investment companies operating in Indone-

sia would be curtailed, allowing for the proper taxation of such units.

The government last year issued a new regulation (PP 20) which makes it much easier for foreign institutions and companies to invest in Indonesia. This group of regulations, (called PP20), allows foreign firms to own up to 95% of the Indonesian companies they invest in, and, in addition, have increased land use rights in Indonesia. Divestment requirements have been relaxed and other, previously closed 'strategic' sectors have been opened to foreigners. However, the retail sector remains closed to direct participation by foreign entities.

As of now there are two ways for foreign entities can invest directly in Indonesia. The first is as a joint venture with Indonesian citizens. Foreigners can own up to 95% of the joint venture. The license for a joint venture is for 30 years, and can be extended. In this type of investment divestment is not required. The second method is to have a completely foreign owned entity. These companies must begin divestment after 15 years of commercial production.

Foreign investment is also encouraged in Indonesia through the restitution of the import duty paid by exporters for materials and goods used for manufacturing products for export. Also, there are exemptions from the import duty and value-added tax on machines, raw materials and consumables - except fuel and lubricants - if the company exports a certain percentage of its manufactured goods.

With growing competition from China and Vietnam, two countries which are actively courting foreign investors, Indonesia is taking a second look at its older, more restrictive regulations, including those concerning land use. In a time of APEC and opening trade, Indonesia is looking to participate in the global market, while keeping its national integrity intact.

New financing, particularly much needed long term financing, for property projects in Indonesia also exists.

Special loans for private companies to build houses for their employees have been made available. Large property firms have been able to obtain substantial funds from Indonesia's growing stock market, although property shares in the market have recently been dropping. (Foreign interests own a substantial number of shares of stocks listed on the Jakarta Stock Exchange). Discussion of the institution a secondary mortgage facility in Indonesia like that successfully used in Malaysia has gone on for some time, although no word has come yet on a final decision concerning the institution of such a facility here. These funding sources could provide needed long term financing.

The continuing demand for housing in Indonesia continues. Housing development programs by the government and the private sector cannot keep up with increasing demands of the growing population. Minister Akbar Tanjung has said that the government expects a need for 300,000 new upper income units to be built during the sixth Five Year Development Plan (Pelita VI); this demand will be left for the private sector to fulfill. The need for 500,000 low to middle income housing units during the same period, even with government assistance, is not being met. Each year about 100,000 units of low to middle income housing should be developed, but as of September 1994 only around 27,500 units had been built for the year 1994. Their locations were mainly in small towns, which caused a surplus of supply in some of these towns. All large city development of low income housing was far below target numbers, due mainly to the high price of land in these areas.

The future of the property business in Indonesia still looks good, according to Minister Akbar Tandjung. The demand is still far bigger than what the market can provide, with at least 1 million units of new houses needed each year. The growth of the economy in Indonesia remains stable, and the property business has grown steadily.



ates living in Jakarta alone. Also, the practice by foreigners who want a house or apartment of under-the-table purchasing through foreign investment companies operating in Indone-

SUPERBLOCKS

New Regulation is a Blockbuilder

Superblock plans were designed many years ago, when the old regulations on property development issued by the Jakarta City Administration were still effective. A new regulation — contained in the gubernatorial decree No.678/1994, issued May 31 1994, allows the construction of buildings of more than 32 floors. This encourages the optimal use of land in certain high priced, high demand areas, because the ratio between building floor space and the lot size; called the plot ratio (building coverage ratio, or BCR) can be higher than that previously allowed. However, the building owner will be required to build new roads near the structure, and build adequate facilities for maintaining a healthy environment in the area.

It is a sound regulation since it guarantees an efficient use of land. If possible, other provinces throughout the country will also produce similar rules," says Minister of Public Housing Akbar Tanjung. He reminds, however, that the BCR must be in accordance with land and infrastructure availability.

Minister of Agraria Ir Sony Harsono is also of the same opinion. Unlimited BCR, he says, can help optimize the use of land and guarantee the construction of clean water facilities, waste treatment, protections against fire and earthquake, and so on. "The private sector should establish adequate infrastructure in order to support proper implementation of the BCR policy," Harsono says.

In the Sudirman CBD, 60 floors is the most allowed for office buildings. But why does the BCR of the buildings there average only 5.7? This is because adequate infrastructure could be a problem if buildings with high BCRs were concentrated there. 'Clearly, we should be aware of our own capabilities and know that the government's BCR policy is flexible', Nasroel Chas, the President Director of Sudirman CBD, explains.

Land in the Golden Triangle of central Jakarta is highly sought after by developers. About 500 ha of land in the area has been earmarked for a super-

block project planned by 18 companies. These include PT Kuningan Persada, PT Rajawali Nusindo, PT Swadarma Utama, PT Abadi Guna Papan and PT Danayasa Arthatama.

Twenty five office buildings, shopping malls, hotels and apartment buildings will be constructed on 45 ha of land. About Rp 670 billion (US\$335 million) will be earmarked for the project. Chas says that all supporting infrastructure will be completed in 2003 with the total cost reaching Rp 7.5 trillion.

Another big superblock plan has been announced by Sukamdani Sahid Gitosardjono, the Indonesian hotel tycoon. He has decided to increase the planned Grand Sahid Plaza from 32 floors to 50 floors, including 5 underground levels for parking. It will be part of the Sahid City superblock, to be built on 6.5 ha of land. This change has been based on thorough considerations concerning land availability and infrastructural demand.

The Kuningan Persada superblock is also being developed. Currently under construction - the first structure on the site - is the office building Empire Tower. The superblock is part of 57 ha of land located at Kuningan, and jointly owned by Henry Pribadi, Sudwikatmono and Prayogo Pangestu.

Another superblock is BNI City, which is located on 50 ha of land near the Ciliwung river. It is being built by

PT Tri Handayani Utama, established by the pension fund foundation at the Bank Negara Indonesia, in cooperation with PT Satya Djaja Raya. BNI City pioneered the establishment of superblocks in Indonesia by constructing the BNI office building. They also

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built the Shangri-la hotel, another 16 floor office building, and a shopping mall in cooperation with a Hongkong-based investor.

A number of new superblocks will very likely be built because of the new regulation on property. Aside from superblocks, investors are also ready for highrise buildings like Wisma BDNI near Jalan Sudirman. A twin tower building with 68 floors, Wisma is expected to be a Jakarta landmark.

Judging from the infrastructure being constructed, the developer of Wisma BDNI had clearly anticipated the issuing of the new regulation on building construction by including the establishment of a new water purifying process, which is partially run by Jakarta City's clean water processing company; PAM Jaya. It is the only state firm providing Jakartans with drinking water. "PAM Jaya is now prepared to supply skyscrapers with clean water," says the President of

PAM Jaya, Poedjiono RHD.

So far, a number of high rise building developers have applied for installation of clean water facilities. The installation of water pipe lines with a capacity of 250 liters per second has been done by PAM Jaya. But, Sudirman CBD and other superblocks will also maintain their own wells, complete with pumping facilities, which can be used in case their water pipe lines fail to function properly.

The introduction of the new regulation on building construction intensity will pose no problem for the state telecommunication company PT Telkom. It will even enable the firm to gain more profit, according to a Telkom executive. The company is now ready to establish telecommunication facilities in highrise building compounds. Currently, Telkom is establishing more than one million of telephone lines annually.

However, there will be many problems caused by the implementation of the new BCR policy. The utilization of ground

water sources, for instance, will no doubt increase in line with the establishment of more new buildings with a BCR of more than 5, according to Eko Budihardjo, an environment expert from Semarang's Diponegoro University. This means that more water will be channeled from the Ciliwung river and Jatiluhur dam in west Java, which have so far served as main water resources. They will not be able to meet the increasing demand in the future. Budihardjo suggests that the Jakarta city Government develop new green areas in or-

der to increase the City's ground water reserves. Jakarta will also become more beautiful and fresh as a result, Budihardjo says.

Meanwhile, city planning expert Karnaya from University of Indonesia, reminds that constructing highrise buildings in Jakarta will be very costly because of the area's porous clay soil. The foundation of highrise buildings in Jakarta must be 40 meters deep. So, although the new policy stipulates an optimalization of land use for efficiency reasons, its implementation requires big funds.

Nasroel Chas says that the change in the BCR system is not the only way of making full use of land. Another alternative is developing integrated areas. It is necessary to apply clustered development systems— and not ribbon development systems— for the development of superblocks in Jakarta. So far, ribbon development systems have been adopted for designing Jakarta's physical plan. The application of the clustered development systems can enable developers to make full use of the old system.

The adoption of clustered development systems in mixed development areas not only helps guarantee efficiency in using land but also aims at easing the traffic burden born by main roads. This is because the development of adequate infrastructure in clustered development areas can help minimize people's dependency on motorized cars for many of their daily activities.

Aside from that, high flexibility has been maintained in the application of superblock concepts in Jakarta. Creativity and innovation has made it possible for developers to avoid adopting "kavling" (lot) systems in the distribution of BCR. The BCR distribution concept can function as a catalyst for ensuring adequate interaction among social and economic layers of the society (particularly between the formal and informal sectors), and also directing the interaction between public and private spaces.



Metropolitan Complex on Jl. Sudirman. One of the largest land areas of any development in the Sudirman CBD.

SURABAYA:

THE NEW GROWTH CENTER

Surabaya is the capital city of east Java, with a population of about 3 million people. It is Indonesia's second largest city. Data from the provincial office of development planning (Bappeda) shows economic growth of 8.2 % for 1994. This has encouraged investors to seek out Surabaya for business opportunities.

Many believe the property business sector is the most promising.

Property business in Surabaya has a very bright future," says Djaja Santosa, President Director of PT Mas Murni Indonesia.

Another entrepreneur, Richard Adisastra, a Director of PT Pakuwon Djati, is also of the same opinion.

A total of 3,110 apartment units will soon be made available in Surabaya. Expected prospective buyers are typically expatriates doing business in the city, who currently number about 5,000. Most of the apartments will be ready by 1996, but competition among developers in selling them will be tough. In order to beat the competition, developers will no doubt provide incentives for buyers. Fully furnished apartments will be one alternative. Another concept is providing service apartments - which have near hotel type services.

The number of star rated hotel rooms in Surabaya will also increase by 2,807 next year, when an estimated 12 new hotels will begin operation. This will be a 120% increase in capacity, as available rooms now add up to only 2,330. This development had not been anticipated, according to Srie Hudojo, President Director of PT Bumi Modern Hyat Hotel, Surabaya

Surprisingly, the occupancy rate of hotels is currently only 40% on average. But, hotel developers seem to be very optimistic about the increase in

the number of business travelers in Surabaya and other parts of east Java in the future.

This optimism is not without reason. Currently, investment in east Java, including foreign and domestic, amounts to Rp 11.7 trillion (US\$ 5.32 billion), according to data from the Investment Coordinating Board (BKPM). Involved in the Surabaya hotel business are not only developers specializing in that sector, but also non-hotel related businessmen. The latter are mainly east Java entrepreneurs. Foreign conglomerates have also considered entering the hotel business in Surabaya.

Many hotel owners in the city have tried to make agreements with hotel chains with long experience and expertise in hotel management. Among the well-known chains being solicited are the Mandarin, Shangri-la, Sheraton and Westin International. Domestic hotels chains like the Sahid have also offered their management expertise to Surabaya hoteliers.

In contrast to the apartment and hotel business, Surabaya's office building growth has been controlled. This has mainly due to the fact that the city is facing an office space surplus. According to available data, the number of office spaces ready for lease is 131,000 sqm in 15 buildings in mid 1994. Currently the occupancy rate of office buildings in Surabaya is about 65%. This means that about 46,000 sqm of office space in the city is un-

used. This may have discouraged certain developers from constructing office buildings in Surabaya. Office space is estimated to increase by only about 65,000 sqm in 1996. Most of this will be at the Bank Umum Nasional Tower.

Experienced professional developers are aware that office space is not a quick yielding enterprise like the apartment business. Since there are no speculators in office space, what you have is relatively fair competition because end-users are usually the marketing target.

Investors will remain reluctant to construct new office buildings in Surabaya. This means that office sector will face a brighter market during the coming two years, compared to that experienced recently.

The boom in the property business over the past several years, and the increase in the disposable income of Indonesians has encouraged the development of many new, modern shopping mall complexes which integrate shopping and recreational activities.

Presently, Surabaya has a number of shopping centers, like Tunjungan Plaza I and II, Wijaya Shopping Center, Indoplaza and Suabaraya mall. Dharmala is building a shopping mall of 100,000 sqm. Another developer, Sinar Galaxy will build a 27,000 sqm shopping center, to be called Galaxy Mall. Meanwhile, Pakuwon Jati will build Tunjungan Plaza III, which is scheduled to start operation later this

The efforts of the government of Indonesia to create more economic diversity in the country by reducing the dominance of Jakarta as the main political, cultural, and financial center of Indonesia is good news for Surabaya. The government has invited developers to build new town type projects in the vicinity of Surabaya, and developers are responding by undertaking ambitious projects in the area. The trans-Java network of toll roads planned by the government includes Surabaya. All forecasts point to Surabaya as a major growth center.

year.

The main factors taken into account before establishing new shopping centers includes the availability of new resettlement areas and location near primary transport routes. These two factors have caused a drastic increase in the price of land in the Ngegel district. Of the 29 ha of land earmarked for property, 16 ha have been developed, with a three-star hotel and an apartment complex, called Adistana Apartments there. The land prices there are presently between Rp 500,000 and Rp 700,000 per sqm, compared with a price of Rp 250,000 and Rp 400,000 last year. This is an increase of 40% in land price. Another big price increase has been seen in the Quadrangle Area - including Maspati, Embong, Malang, Blauran, Praban and Tunjungan.

The rapid growth of Surabaya has attracted the interest of large developers. Getting involved in the development of the city are big project companies like Ciputra Development group, which is building the huge satellite city CitraRaya Surabaya. The Salim Group plans to construct shopping malls, a hotel and apartments in Surabaya, and the Gading Mandala Utama Group - controlled by Hutomo Mandala Putra is involved there.

Surabaya will not be a rival of Jakarta anytime soon; it does not have the political and financial dominance of the capital city. However, in the next century, it will grow to be a competitor with its big brother to the west.

Land clearing has started on the city's eastern fringe to construct a large project called Surabaya Marina. Covering 3,190 ha, the project will cost Rp 4.3 trillion (US\$ 1.95 billion). A consortium of Surabaya-based developers will carry out the project, with each member controlling part of the 3,190 ha area of the development — PT Dharmala Land (50%), PT Sac Nusantara and the Palapa Group (31.5%), and PT Pakuwon Jati (18.5%).

The consortium was established four years ago, but so far only Pakuwon Jati has started carrying out the Surabaya Marina Project; developing a coastal village, Laguna View. This is a residential area covering 50 ha of land. Meanwhile, the Palapa

Group is planning to build on 400 ha of land at a cost of Rp 750 billion (US\$ 341 million). "This will be our effort to expand the Sahid Group's business to Surabaya," says Sukamdani S Gitosardjono.

Of the 3,190 ha of Surabaya Marina, 1052 ha will be allocated for residential areas, including a 40 ha man-made lake in the center. Aside from helping maintain a balanced ecosystem, the lake will also function as a tourist attraction, with a floating market, aqua driving range, and so on. The Surabaya Marina will be integrated with Surabaya's central business district and the Surabaya-Madura bridge. It will take developers 15 years to complete the project.

Another new town will also be developed. About 9 kilometers from Surabaya, this new town is called Marina City 2000. It will be part of Sidoarjo city, sit of many industrial estates serving the Surabaya area. The project will be carried out by PT Satria Pratama Berlian and cost about Rp 6 trillion (US\$ 2.7 billion). The principal area of the 2,000 ha Marina city project will be 6 kilometers of land along the beach. The project will be completed in 10 years.

A number of foreign consultants have been involved in the project for two years. They are from WT Australia, Development Strategy International, Australia (site plan), Water Management Consultants, the Netherlands (irrigation), and Colliers Jardine, Britain (feasibility studies).

In its long-term plan, Marina City's main transportation system will be a monorail, supported by 10 stations, and international jet foil services which will link Marina City to different cities in Indonesia, Asia, and Australia.

With an expected rapid growth in its economy in the years to come. Surabaya may, (in the long term), actually become a major competitor for business with Jakarta. *Swatindro*

Real Estate Brokers in Indonesia Training and Licensing Ahead

You hear it again and again. How some big developer here has sold hundreds of units of apartments or condominiums in a few hours. It's an impressive achievement. Is it true though?

Many times, a prelaunching of an apartment complex occurs, attended by real estate 'brokers'. These people pay a booking fee of perhaps \$ US 1000 for each apartment unit. They hold on to the property for a few days or weeks, then sell later for a quick profit. These obviously are not brokers in any legal sense of the word, but profit-takers and investors.

The fact is, real estate brokers in Indonesia are unlicensed and usually untrained. The field is rife with investors and speculators. Other, informal brokers are simply people who know potential property buyers and invite them to launchings. They have a network, and they bring people together, but they don't have much knowledge of the product or of real estate law. Sometimes disputes occur because of this lack of knowledge of the legal aspects of the property business.

Hopefully, however, this situation will soon change. AREBI, the Association of Real Estate Brokers of Indonesia, an organization only two years old, is already pushing to improve the quality of brokers through training, and eventually, Government licensing. Later this year they will introduce a training program for brokers, with the

cooperation of the Institute of Management, Education, and Development, and in association with the Real Estate Institute of Western Australia (REIWA). Their eventual goal is to have Government licensing of brokers, like that required for appraisers here now.

Cynthia Sonneville, the lovely and talented president of AREBI, has be-

mission of this training program'.

The first, critical step in making a better broker is the establishment of a code of ethics. These core values, which members of AREBI are already required to follow, would be made standard throughout the industry. Then comes training. Eventually, Cynthia would like to see Government licensing of brokers in Indonesia.

TATAN RUSTANDI



**A launching.
Where's the
end-user?**

gun the long and difficult process of improving the quality of real estate brokers in Indonesia. She recently spoke to IPR about the future of brokers in Indonesia. She said the goal of training and licensing is to make the broker provide better service to the consumer. 'That the broker be a better broker, a more professional broker, a more responsible broker, that is the

The training program has already been planned, and should begin this year. 'We shall start with a basic training program for the sales representative', Cynthia said, 'We don't have training for brokers yet. We want to start everybody on this trial training. The training covers how to increase product knowledge. Then we shall see how we can develop the train-

TATAN RUSTANDI



Cynthia Sonnevile.
President of
AREBI.

ing course into educational programs in more depth covering the broker's job'.

'Now you cannot simply copy from REIWA or any other established institution or organization. We have to adjust for the Indonesian situation, for the culture, the way of education, and how things are accepted and done in Indonesia. It takes a lot of work. Its a long process, but now we have found the Institute of Management, Education, and Development. We have found REIWA to help us, and now we are now working to set up this training program.'

ERA Indonesia is one real estate brokerage which already has in-house training for its members, and it is a company well-respected in the field.

However, AREBI wants to have training and licensing industry-wide.

Johan Boyke Nurtanip, marketing director of Point Plus Club - in the top 5 for landed property - talked about the problem of product knowledge among brokers in Indonesia. 'We have a club, PPC point plus club. We have hundreds of free lance brokers. When we have a launching we gather brokers together and have a product presentation. We gather together perhaps 300 brokers who will attend that meeting and the presentation of the product. Normally this will be two weeks prior to the launching of the product. We give them invitations and brochures so that they can approach their clients, the potential buyer.

'Its not actually not real indepen-

dence of brokers here. You have marketing agent companies or selling agents, Mr. Nurtanip said. The agents would have their own clubs, individual brokers and their own marketing staff. Brokers don't even know the product sometimes, so they grab our marketing staff, and have them explain the product to the customer. An agent like us should know the legal requirements, but often the broker doesn't.'

Cynthia talked about the problem of separating the true broker from the investor or speculator. 'Many people are potential investors and brokers, going from one project to another. Those people are not yet members of AREBI. I ask the companies that run these clubs which people are pure brokers and which are investors.

AREBI is the only organization of its type up until now recognized and supported by the Government.

Cynthia said, 'I hope it will always be like that. There is no point in having many organizations unless there are specific missions for each, because it comes down to one perception.'

Now AREBI is working with the Real Estate Institute so in the future REI would only recognize those brokers who are members of AREBI.

What is the response from independent and in-house brokers to the idea of membership in AREBI? Almost totally positive, says Cynthia. 'We have the professional, experienced brokers such as Procon Indah and Colliers Jardine coming in as members. We have a few foreign firms that want to join the organization. The members feel they need to learn more, they need also to widen their network. They need to be more professional. Actually our members are waiting for the training and licensing. Not only brokers are interested in this training, but also the marketing divisions of developers. Hopefully the training will start the process toward our long term

goal of issuing licenses.'

Currently independent brokers market the majority of property products in the Jakarta area; somewhere around 80%. Firms with in-house brokers would not have enough human resources to sell this much. Foreigners are usually involved in commercial property; for example, office listings. Johan Nurtanip of PPC says, 'I don't believe that we would need any of these foreign companies to help market the landed property for residents here because local brokers would know the market better. But for apartments and commercial properties, foreign brokers are doing well because their experience.'

The property business in Indonesia is still relatively new. Ms. Sonnevile said, 'Before there were brokers, the developers always used their in-house marketing division. I remember that well-planned real estate; residential projects, had just started to be developed in 1972. The developers believed that they could market people themselves. At that time the product was easily salable because it was new to live in a developed real estate area. But because development increased to projects covering thousands of hectares, not only in residential, but also in office spaces, the developers saw that they could not only have their in-house marketing division.'

'It used to be that the in-house marketing division stayed in the office and received calls from the clients or potential buyers because the developers put big advertisements in the mass media. They finished one property project and then began another one. The overhead was heavy because after a project was finished it took quite a while to start another project, and it took months or years to start another project but they had to keep paying their marketing division. Then there was a need to use brokers; to use other marketing agents. That's where Procon Indah came in, because they're networking is worldwide, they are experienced, and in office leasing they are very good.'

'Rental houses were always sold by traditional brokers; by housewives. Those have been operating for 15-20 years. So there's a development from using the in-house marketing division to using brokers. They combine the two marketing methods and they see how this product is best taken care of. Foreign brokers know the market well and their database is very important. But for residential real estate perhaps Indonesian brokers are better, because the buyers are local people. When the foreign people, the expats can own here, then it starts to get very interesting. That's why the brokers need to learn English, or some other

'We are setting up a code of ethics. We are providing training programs. We plan to provide members with information...but AREBI is not a business center'.

language, for their clients. The Japanese are here, the French, and other countries are here.'

The President of AREBI also wanted to clear up some misconceptions about her organization. 'I hope AREBI is not going to be misused as a business center. A lot of companies asked if they could work with AREBI; if they could have an agreement with AREBI. We said no! You can make a contract with the members. If a company wants to give a briefing to the members, I will invite all the mem-

bers, but AREBI itself doesn't do any business.'

'AREBI is a non-profit organization; it is for the members to increase their business. They increase their business if they increase their service. We are setting up a code of ethics. We are providing training programs. We provide members with information; a network. We plan to have gatherings of all our members; a sort of business exchange; a marketing networking gathering to get more information. So that's the benefit of being a member. We are working towards that. We are serving our members. But it is not a business center.'

Another critical function that AREBI is increasingly called upon to perform for its members is that of arbitrage and negotiation. Cynthia explained. 'We face a lot of problems between brokers and other brokers, between brokers and developers. If our members face problems we have meetings with them. We listen to both sides. We try to find a way out which is best for all parties before they end up in court. It saves a lot of time, energy, and headaches.'

Cynthia Sonnevile is optimistic about the future of the property business here. 'The property business is growing. The variety of property is increasing. The standards of the property are improving. Properties are developing in the big cities. Go outside Jakarta or Surabaya or Medan or Bandung; there is not much developed property around. Developers are seeing the potential in each city; each location. There are many, many islands in Indonesia. Property has been developed in big cities because business starts in big cities.'

What about the future of AREBI? In only two years, AREBI, Cynthia Sonnevile's baby, is showing surprising development. Training for members is about to start and eventual licensing probable. With the blessing of the Government and the support of important organizations, it looks like a win/win scenario for both AREBI and the future professionalism of brokers in Indonesia ■

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